

**BellSouth Corporation**  
Suite 900  
1133 21st Street, N.W.  
Washington, D.C. 20036-3351

mary.henze@bellsouth.com

**Mary L. Henze**  
Assistant Vice President  
Federal Regulatory

202 463 4109  
Fax 202 463 4631

October 21, 2003

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW, TW-A325  
Washington, DC 20554

***Re: WC Dkt. 02-112, Sunset of the BOC Separate Affiliate and Related Requirements; CC Dkt. 00-175, 2000 Biennial Regulatory Review of Separate Affiliate Requirements of Section 64.1903.***

Dear Ms. Dortch,

On October 20, the undersigned, Steve Inman, and John Ruscilli of BellSouth met with Bill Devers, Jon Minkoff, Renee Crittendon, Bill Kehoe, and Ben Childers of the Wireline Competition Bureau. The purpose of the meeting was to respond to requests for information regarding bundling or packaging of multiple services and trends in wireless substitution for wireline service or usage. Presentation material used during the meeting is attached.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions regarding this filing please do not hesitate to contact me.

Sincerely,



Mary L. Henze

cc: B. Devers  
R. Crittendon  
J. Minkoff  
B. Kehoe  
B. Childers

# BellSouth Ex Parte Presentation Retail Bundling

October 20, 2003

CC Docket No. 00-175

WC Docket No. 02-112

FNPRM – Long Distance Dominant/Non-Dominant Regulation

# *Bundling*

- ***FCC Order in CC Docket Nos. 96-61 & 98-183 (FCC 01-98):***  
***Para. 14 – Encourages competition***

*“...Allowing all carriers to bundle products and services is generally procompetitive and beneficial to consumers. Bundling encourages competition by giving carriers flexibility both to differentiate themselves from their competitors and to target segments of the consumer market with product offerings designed to meet the needs of individual customers.”*

## ***Para. 15 – Definition***

*“We view bundling as the offering of two or more products or services at a single price, typically less than the sum of the separate prices.”*

## *Bundling*

- ***FCC Order in CC Docket Nos. 96-61 & 98-183 (FCC 01-98):***  
***Para. 15 – Reduces Costs for Consumers***

*“Bundling can further reduce costs for consumers by eliminating the time and effort needed to find products and services in the market, negotiate appropriate purchase terms, and assemble the desired combinations”*

***Para. 34 – Reduces Consumer Barriers for Subscribing to New Service***

*“We are particularly persuaded that bundling can promote the deployment of advanced telecommunications services ...Many advanced telecommunications services require specialized CPE that customers would otherwise need to buy separately because they represent new technologies. By providing the necessary equipment as part of a discounted package ... a carrier can eliminate some of the up-front investment cost that inhibits customers from subscribing to the service.”*

# Bundling

- ***History of Bundling Services***

- *BellSouth's competitors in the local exchange market have been offering bundles of services for many years:*
  - *AT&T began bundling local exchange, long distance and cable TV with Internet access in late 2000; currently offer "One Rate USA" and "One Rate Advantage" Plans which include local, long distance and calling features (as of 2Q03, AT&T says it has sold 3.1 Million bundles in 15 states).*
  - *MCI's "Neighborhood", a bundle of local exchange with calling features and long distance services, began in early 2001; currently offering "Neighborhood Complete" with high speed Internet with any "Neighborhood" plan.*
  - *Sprint is offering "Complete Sense", a bundle of local, long distance and wireless. Sprint claims it "has been a pioneer in the area of bundling for years."*
- *Many smaller carriers offer bundles of local, long distance and enhanced or information services. A few examples include:*
  - *Z-Tel is offering "Z-lineHOME"*
  - *Birch Telecom is offering "Home Connection"*
  - *Supra Telecom offers "Super Friends Unlimited Plan"*

# *Bundling*

- ***Industry Direction:***
  - *Moving toward integration of all services with single bill and single point of contact:*
    - *Can be accomplished via bundling of one company's services*
    - *Can be accomplished via joint marketing of several companies' services*
      - *contractual arrangements between companies providing services to an aggregating supplier*
  - *Convergence of telecommunications services, wireless, Internet, data, and video is blurring boundaries between markets*

# *Bundling*

## *BellSouth “Answers<sub>(sm)</sub> for You”*

- *In response to customer demand and competitors’ bundle offerings, BellSouth offer competitive packages, some through joint marketing*
- *In part due to regulatory constraints, BellSouth offers few true bundles*
- *BellSouth has developed a number of packages and discounts to compete with bundles*
- *Answers<sub>(sm)</sub> packages offered by BellSouth allow customers to choose several combinations of these services:*
  - *Local exchange service with vertical features*
  - *Long distance services including unlimited plans*
  - *Wireless services with a \$2, \$5 or \$10 discount*
  - *Dial-up or FastAccess® Internet services with a \$2, \$5 or \$10 discount*

BellSouth  
ExParte Presentation  
Studies Regarding Wireless for Wireline  
Substitution

October 20, 2003

CC Docket No. 00-175

WC Docket No. 02-112

FNPRM – Long Distance Dominant/Non-Dominant Regulation



# Studies Regarding Wireless for Wireline Substitution

## Outline

- Current Market Conditions
  - 13.7M Access Lines predicted to be displaced by 2006
  - 1 of 3 wireless calls from households are for long distance
  - By 2006
    - 40% of all wireline calls migrating to wireless networks
    - 32.4% of overall voice revenues will be wireless
  - Cultural Acceptance of wireless displacement of wireline
  - Wireline-wireless number portability
- Carrier's Perception of Displacement
  - Wireless displacement affecting Log Distance Revenue
    - Sprint
    - ATT
  - ATT Wireless sees itself as a leader in helping companies sever the “wires that bind”
- Wireless Carrier's Perception of Themselves as Local Competitors
  - Argue that they bring competition to the local exchange market in regulatory proceedings
    - Petitions for Reconsideration in the Triennial Review
    - Filings for ETC status

# Studies Regarding Wireless for Wireline Substitution

## Outline

- Is the Wireless Market Financially Viable?
- How are Wireless Carriers Using Bundles to Compete?
  - Bundles offered by Sprint
    - Unlimited local, long distance, and PCS
    - Has the ability to provide integrated services to more than 85% of US households
    - Pioneer in bundling long distance and other services
      - 50% of Local customers
      - 20% of wireless customers have residential long distance from Sprint
- Cable Telephony
  - ATT Comcast footprint passes 38M homes and has 22M subscribers
  - By 2007 cable is estimated to represent 5.3% of consumer telephony subscribers
- How Should Wireline Carriers Respond
  - Creative Service Bundling and Packages
  - Emphasis to be placed on
    - Long Distance
    - Vertical Features

**Studies Regarding Wireless for Wireline Substitution**

**Detailed Notes and Documentation**

# Studies Regarding Wireless for Wireline Substitution

## Current Market Conditions

- IDC states that at yearend 2001 (Note 1)
  - 10 Million wireline access lines have been displaced by consumers choosing wireless
  - 13.7 million additional wireless access lines will be displaced by wireless from 2002 – 2006.
- Overall the percentage of households that indicated their purchase of a wireless phone was in lieu of installing an additional line was 12.3% (Note 2)
- Wireless long distance calling has become the norm for wireless households with one out of three wireless calls made among households are long distance (Note 2)
- One out of three traditional home or office phone calls were instead made on cell phones (Note 4)
- Wireless revenues grew \$76B or about 30% of the entire telecommunication sector revenues. (Note 4)
- 148.7M subscribers or nearly half of the US population. (Note 4)
- Wireless displacement of wireline access lines is forecast to accelerate as a function both of: (Note 5)
  - increasing cultural acceptance of wireless access lines and
  - Wireline-wireless portability beginning in late November
- The Yankee Group predicts the wireline displacement market could be worth as much as \$50 billion by 2006 with more than 40 percent of all wireline calls migrating to wireless services. (Note 6)
- Excerpts from Stephen Pociask Testimony before NCPUC: (Note 9)
  - For the year 2000, 12 wireless subscribers added for every access line added by incumbent LEC.
  - In 2001, 19M more wireless subscribers were added, compared to a decline of 9M LEC access lines in service.
  - Peter D. Hart Research Associates reported 38% of wireless customers had at least some interest in using wireless to replace home telephone us.
  - M/A/R/C research found that 16% of wireless subscribers used their service to replace wireline services.

# Studies Regarding Wireless for Wireline Substitution

## Carrier's Perception of Displacement

- The largest impact of wireless substitution is being seen on the consumer wireline long distance side.
  - 1Q02 earnings call Sprint FON
    - Consumer LD volumes down 10% with 75% attributed to wireless substitution (Note 3)
- AT&T recognizes “Substitution” of “Wireless and Internet technology” as two of the “[i]ndustry forces.....affecting current sector [Business Services] performance” (Note 7)
- AT&T Wireless Annual Report 2002: (Note 8)
  - “Cutting the cord. Every day, more people make the choice to be free yet connected with wireless.” “Christopher has ‘cut the cord’ even at home and prefers all the advantages of wireless.”
  - Approximately 1 in 5 of all U.S. calls are wireless.
  - “We’re a leader in helping savvy companies cut the cords and sever the wires that bind.”

# Studies Regarding Wireless for Wireline Substitution

## Wireless Carrier's Perception of Themselves as Local Competitors

- Wireless providers view themselves as LEC competitors in Petitions for Reconsideration In Matter of Review of Section 251 Unbundling Obligations of Incumbent Local Exchange Carrier, CC Docket No. 01-338, et al.: (Note 10)
  - AT&T Wireless – FCC has repeatedly stated , both in this proceeding and in other contexts, promoting competition between CRMS carriers and ILECs is a paramount goal of the agency's local telecommunications policy. It makes no sense, and is manifestly unfair, to saddle wireless carriers with the burdens supposedly vital to satisfying this objective – such as local number portability – while at same time denying them the benefits that flow as a matter of course to other entities that attempt to compete in local exchange market.
  - CTIA – FCC should clarify that CMRS carriers are entitled to UNE pricing for transport between base stations and ILEC offices in order to ensure CMRS parity with wireline providers.
  - Nextel – There should be no hesitation by FCC to promote wireless carrier use of UNEs to strengthen their potential to become more fully intermodal competitors to ILECs' historical local monopoly over voice services.
  - T-Mobile – A loop definition that includes central office to base station link would advance FCC's goals of greater intermodal competition. FCC should adopt loop definition that recognizes technical differences between wireless and wireline networks, provides parity in regulatory treatment, and promotes the goal of greater intermodal competition.
- Cellular Telecommunications and Internet Association views its members as LEC competitors in filings with FCC: (Note 11)
  - “A primary goal the Commission established in imposing LNP for CMRS providers is fostering competition both among wireless carriers and between wireless and wireline service providers.” (Note 11)
  - “[C]ongress foresaw eventual local competition between CMRS providers and wireline carriers -- such as that which the Commission is attempting to promote through intermodal number portability.....” (Note 11)

# Studies Regarding Wireless for Wireline Substitution

## Wireless Carrier's Perception of Themselves as Local Competitors

- “[C]ongress specifically recognized, and approved of, wireless carriers providing “basic telephone service” in competition with wireline carriers.....” (Note 11)
- “CTIA agrees with ALLTEL that a grant of ALLTEL’s application will serve the public interest by bringing the benefits of competition to an underserved market place and bring new advanced telecommunications services to consumers in Alabama. Furthermore, designating ALLTEL as an ETC promotes the development of advanced communications and is consistent with the principal goals of the universal service program.” (Note 12)
- “THE RECORD IN THIS PROCEEDING CLEARLY INDICATES THE SIGNIFICANT PUBLIC INTEREST BENEFITS PROVIDED BY WIRELESS ETCs – Competitive neutrality and portability of USF support are concepts mandated by the 1996 Act. However, as the comments submitted in this proceeding indicate, the Commission’s portability rules also help further the overall public interest by bringing advanced telecommunications services to many rural and insular areas that have long suffered from extremely low telephone penetration rates.” (Note 13)
- “CMRS carriers have played a critical role in fostering the development of an extremely competitive, facilities-based alternative to traditional wireline offerings.” (Note 14)
- “In fact, as a result of the intense competition and innovative services offered by CMRS providers, some consumers have decided to exclusively use wireless service for their telecommunications needs. See *Triennial Review Order* at ¶ (stating that “3 to 5 percent of wireless customers use their wireless phone as their only phone”))” (Note 14)
- “In establishing the service eligibility criteria, the Commission stated that its goal was to encourage the provision of local service ‘in direct competition to traditional incumbent LEC service.’ CMRS carriers, through their service offerings, clearly satisfy this objective.” (Note 14)

# Studies Regarding Wireless for Wireline Substitution

## Is the Wireless Market Financially Viable?

- CTIA's June 30, 2003 Semi-Annual Wireless Industry Survey results: (Note 15)
  - “Total Six-Month Revenues are Up 12.95 Percent Year over Year”
  - “Local Monthly Bill is Up 4.3% Year over Year”
  - “Total Billable MOU's Are Up Over 30 Percent Year Over Year”



# Studies Regarding Wireless for Wireline Substitution

## How are Wireless Carriers Using Bundles to Compete?

- Sprint August 27, 2003 Press Release: (Note 16)
  - “The recent FCC order paves the way for long-awaited competition and choice for local telephone service, and Sprint is responding with a portfolio of new bundles,” said Len Lauer, president of the PCS Division of Sprint. “With Sprint Complete Sense Unlimited with PCS, one of the new calling bundles from Sprint, customers no longer need to think about where, when, or which phone to use to make a call anytime of the day or day of the week.”
  - “The portfolio consists of four bundled calling plans – including an unlimited local, domestic long-distance and wireless bundle called Sprint Complete Sense Unlimited with PCS that is the only one of its kind.”
  - See Sprint Complete Sense (sm) Product Overview attached and at ([http://www3.sprint.com/PR/PressKits/Attachments/135\\_1107.pdf](http://www3.sprint.com/PR/PressKits/Attachments/135_1107.pdf))
  - Also see Sprint Complete Sense (sm) Portfolio Key Messages attached and at ([http://www3.sprint.com/PR/PressKits/Attachments/135\\_1103.pdf](http://www3.sprint.com/PR/PressKits/Attachments/135_1103.pdf))

# Studies Regarding Wireless for Wireline Substitution

## Cable Telephony

- Yankee Group: (Note 17)
  - “[U]nlike the ILECs, AT&T Broadband can push unique ‘triple play’ bundles to the consumers that in turn are driving penetration among those interested in a single provider for voice, cable TV, and the Internet.”
  - “From an ILEC perspective, AT&T Comcast, with its extensive footprint of 38 million homes passed and 22 million subscribers, can prove a formidable competitor from an overall bundled services perspective. Specifically, with the deployment of IP telephony, AT&T Comcast will be expanding its domination of consumer entertainment services to include productivity solutions aimed at higher-value customers such as telecommuters, home-based businesses, and even small businesses that may already subscribe to high-speed data services (cable modem) from the company.”
  - “An alarming statistic for the ILECs is that 11% of Cox’s telephony subscribers are local voice-only customers who do not make any other service from Cox and hence do not receive any bundled discounts, yet still chose Cox over the incumbent phone company.”
  - “While the ILECs will continue to lag behind in delivering video services, the MSOs and overbuilders will continue their march toward delivering unique ‘triple play’ bundles, thereby establishing a long-term sustainable competitive advantage over their telco rivals.”
- Lehman Brothers: (Note 18)
  - “Cable Telephony: we believe ’04 will be a pivotal year for VoIP telephony roll-outs by the MSOs; however, we expect these rollouts to be contained to 6-12 cites initially covering several million households and expect MSOs to pick-up 600K subs in ’04 and 900K in ’05. Importantly, we expect many MSOs will conclude by YE04 that telephony is less attractive than expected due to tremendous competition in each market .....
  - “[W]e estimate that cable could represent 5.3% of consumer telephony subscribers by 2007....”

## Studies Regarding Wireless for Wireline Substitution Cable Telephony

- Business Week – “Bells, beware: Cable is about to muscle in on your service.” “Using the older technology, cable operators in the U.S. have already amassed 2.2 million phone lines, or about 2% of the market. In cities where the service has been heavily promoted, such as San Diego, Omaha, and Phoenix, Cox has taken 30% of the market. Cable could take 10% of the national market in six years, Kirby says.” (Note 19)
- Center for Telecommunications Management, Marshall School of Business, University of Southern California – “Voice service is the killer application for wireless transmission. Internet access will remain personal computer (PC)-centric, with wireless voice revenues eroding the margins for terrestrial service providers. The experts predict that wireless providers will capture 32.4 percent of overall voice revenues in the United States by 2006.” (Note 20)

# Studies Regarding Wireless for Wireline Substitution

## How Should Wireline Carriers Respond?

- IDC Essential Guidance (Note 5)
  - Wireline carriers should also focus on creative service bundling and packaging to counter displacement, with particular emphasis on
    - Long distance and vertical-feature bundling that emulates wireless service packages.

# Wireless/Other Platforms Substitution Sources

1. Wireless Displacement of Wireline Access Lines Forecast and Analysis, 2002-2006 IDC
2. IDC 2002 U.S. Personal Wireless Communications User Survey
3. Merrill Lynch Comment “Wireless Services – Landline Substitution becoming More Meaningful” April 22, 2002
4. FCC Eighth Report, “Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services”, WT Docket No. 02-379
5. IDC Market Analysis, “U.S. Wireless Displacement of Wireline Access Lines Forecast and Analysis, 2003-2007”, Scott Ellison
6. September 24, 2003, Communications Today, Vol. 9; Issue 160
7. Goldman Sachs Communacopia XII Conference, David Dorman, AT&T Chairman and CEO, Presentation
8. AT&T Wireless Annual Report 2002, pp. 6, 11, & 23.
9. Direct Testimony of Stephen B. Pociask before NCPUC on behalf of BellSouth Telecommunications, Inc., Docket No. P-55, Sub 1013, July 13, 2002.
10. October 2, 2003 Petitions for Reconsideration in Matter of Review of Section 251 Unbundling Obligations of Incumbent Local Exchange Carrier, CC Docket No. 01-338, 96-98, & 98-147; AT&T Wireless, pp. 10-12; CTIA, pp. 3-6; Nextel, pp. 5-6; & T-Mobile, pp. 7-13.
11. May 13, 2003 Cellular Telecommunications and Internet Association Petition for Declaratory Ruling In Matter of Telephone Number Portability, CC Docket No. 95-116.
12. June 30, 2003 Cellular Telecommunications and Internet Association Comments In Matter of Federal-State Joint Board & ALLTEL Communications, Inc. Petition For Designation as an Eligible Telecommunications Carrier In the State of Alabama, CC Docket No. 96-45.
13. June 3, 2003 Cellular Telecommunications and Internet Association Reply Comments In Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45.

# Wireless/Other Platforms Substitution Sources (cont.)

1. October 2, 2003 Cellular Telecommunications and Internet Association Petition for Reconsideration or Clarification In Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers & Implementation of the Local Competition Provisions of the Telecommunications Act of 1996 & Deployment of Wireless Services Offering Advanced Telecommunications Capability, CC Docket Nos. 01-338, 96-98, & 98-147.
2. June 30, 2003 CTIA Semi-Annual Wireless Industry Survey.
3. Sprint August 27, 2002 Press Release (  
[http://www3.sprint.com/PR/CDA/PR\\_CDA\\_Press\\_Release\\_Detail\\_PF/.....](http://www3.sprint.com/PR/CDA/PR_CDA_Press_Release_Detail_PF/.....))
4. Yankee Group, 2002, “Cable Telephony: Still Far from Threatening the ILECs?”, by Imran Khan
5. Lehman Brothers Equity Research, September 26, 2003, Telecom Services – Wireline, Industry Update, Intersecting Issues: Cable vs. Telecom, Blake Bath & Vijay Jayant
6. BusinessWeek, online, March 24, 2003, Broadband Telephony, by Steve Rosenbush, Ron Grover, and Charles Haddad.
7. “Services and Applications in the Internet Era: Emerging Trends”, by Elizabeth Fife, Research Associate, Center for Telecommunications Management, Marshall School of Business, University of Southern California.